OFFICE OF
STATE TREASURER
DENISE L. NAPPIER

NEWS

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Public Debt Issuer to Earn Moody's Aaa Corporate Scale Rating; Innovative Swap Based Bond Refunding Saves State Over $43.6 Million

Connecticut State Treasurer Denise L. Nappier today announced the State's transportation bonding program is the first public debt issuer to earn the Aaa Corporate Scale Rating for interest rate swap agreements from Moody's Investors Service. The State sought the rating in connection with the largest interest rate swap transaction ever executed by the State.

The swap transaction is part of a $422 million refinancing of existing Special Tax Obligation Bonds to lower interest rates for $43.6 million in debt service savings over the next twenty years.

The Corporate Scale Rating for swap agreements for municipal issuers is a new service being offered by Moody's Investors Service to provide ratings on a corporate scale for use in interest rate swap and related transactions.

The Aaa Corporate Scale Rating assisted the State in achieving the best pricing on the interest rate swaps and allowed the State to negotiate favorable credit terms and qualify with more bidders.

Treasurer Nappier said, "The Moody's Aaa Corporate Scale Rating is confirmation from one of Wall Street's most respected firms that quality governmental debt issuers – such as the State of Connecticut -- have staying power and stand behind their commitments. They therefore deserve the highest credit ratings on a corporate equivalent basis."

Nappier continued, "We are pleased to be the first to take this step, which levels the playing field in swap transactions and improves access to quality financial products. The ultimate beneficiaries will be Connecticut citizens. "

The savings from the bond refunding were maximized by using a "synthetic fixed" rate swap structure in which $422 million of variable rate Special Tax Obligation Refunding Bonds will be converted to fixed rate through the execution of three interest rate swap agreements. Under the agreements, the State pays a fixed rate and receives a variable

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rate. Because the variable rate it receives under the agreement offsets the variable rate it pays the bondholders, the State is left with a net “synthetic fixed” rate obligation, but at a lower all-in cost.

Today the State ran a competitive bidding of the interest rate swaps among five active dealers with which it had fully negotiated master swap agreements in the weeks leading up to the bid. The three winners were Citibank, Lehman Brothers acting through The Bank of America, and UBS Paine Webber. The all-in fixed interest cost on the bonds is 3.6% for the life of the refunding bond issue, the lowest fixed rate ever for a long-term State financing.

The associated variable rate bonds are expected to be priced on January 22. The transaction is scheduled to close on January 23, 2003.

This transaction is part of the most aggressive campaign in State history to refinance debt to lower rates for saving. In the last two years, the State has issued $2.4 billion of bonds to refinance existing debt to lower rates for a total savings of $163 million over the life of the bonds.

Lehman Brothers is the senior manager for the variable rate bonds. Updike, Kelly & Spellacy and Lewis & Munday are bond counsel for the program. Lamont Financial is the State’s swap advisor. Public Resources Advisory Group and A. C. Advisory are the State’s financial advisors on the transportation bonding program. Squire Sanders & Dempsey is underwriters counsel on the transaction.

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